

# On Time Logistics (6123.HK)

## Supply Chain Service for Cross-border E- business will Be New Highlight

HONG KONG | LOGISTICS | COMPANY INITIATION

29 Jun 2015

### Company Profile

On Time-Express, incorporated in 1995, is an international freight forwarder whose business has extended to 16 countries and regions. They provide export cargo freight forwarding service by booking shipping spaces from an airliner or an ocean shipping company to deliver the goods in full containers or in less than container load to the designated destinations. International freight forwarding is a competitive industry with low profit margin.

### Investment Overview

The main business of On Time-Express is to provide air and ocean freight forwarding services, accounting for 69% and 28% respectively, in addition to a small amount of warehousing and storage, supply chain and sales agency services. Its business results growth in 2014 can be attributed to the air freight service, with net profit margin rising to 2%. Its European freight business is overall weak although this is partly offset by American freight business and logistic cooperation with Alibaba.

From late 2014, the Company began its cooperation with Cainiao, which will become a highlight. The packages from Alibaba are sent to Russia via Finland and the number of packages has increased from 500 to 30000 a day. The revenues in this respect are expected to reach RMB60 million to RMB100 million, with a profit margin less than 20% but higher than its traditional services. It is said that JD.com will likely join the cooperation with the Company.

HoliBuy, an e-business platform owned and operated by the Company, is created specially to serve foreign brands which aim to explore China market, in particular Tmall. To put it simply, HolicBuy opens a store on Tmall and foreign brands on HolicBuy which delivers services such as marketing, warehousing, storage and distribution. Now the platform has attracted 5-6 customers.

The Company is going to acquire 20% equity of a Beijing-based logistics company which will be listed in New Three Board soon. When the deal is closed, the Company will enter domestic cargo distribution service market. In the future, the two parties each will hold 50% shares of the new company which will launch a platform for online purchase overseas in mid August.

One of the catalysts for the results in the second half of the year is that it will acquire an ocean shipping company which promises an annual profit of no less than HK\$40 million, contributing remarkably to the profitability.

On Time-Express is turning from the traditional freight forwarding service to e-business supply chain service, and the logistics cooperation with Cainiao will make difference in its business revenues and profit margin. Recently, the State Council issued new policies to encourage cross-border e-business and boost the weakening export. International logistics distribution is a key support for cross-border e-business and On Time-Express will benefit much. We give On Time-Express a "Buy" rating and set a 12-month target price of HK\$2.2, equivalent to 11x PE for 2015. (Closing price as at 25 June 2015)

### Buy (Initiation)

Closing Price: HKD 1.73

(Closing price as at 25 June 2015)

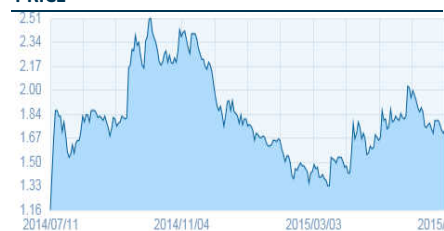
**Target Price: HKD 2.20 (+27%)**

O/S SHARES (MN) :	415
MARKET CAP (HKD MN) :	718
Ent. Value (HKD MN) :	657
52 - WK HI/LO (HKD) :	2.64/1.14

### SHARE HOLDING PATTERN, %

PROMOTERS :	71.54
NON PROMOTER CORP. HOLDINGS :	11.56
PUBLIC & OTHERS :	16.90

### PRICE



Source: Phillip Capital Research

### KEY FINANCIALS

HKD Mn	FY12	FY13	FY14	FY15E
Revenue	2,634	3,161	3,468	3,782
Net Profit	32	37	54	85
EPS	/	/	0.171	0.205
P/E (X)	/	/	10.53	10.71
BVPS	/	/	1.006	1.190
P/B (X)	/	/	1.79	1.85
DPS	/	/	0.016	0.022
Div. Yield	/	/	0.89%	1.00%

Source: Phillip Capital Research Est.

Research Analyst

**Chen Geng**

(+ 8621 51699400-107)

chengeng@phillip.com.cn

## Financials

FYE	FY11	FY12	FY13	FY14	FY15F
<b>Valuation Ratios</b>					
P/E (X), adj.	/	/	/	10.53	10.71
P/B (X)	/	/	/	1.79	1.85
Dividend Yield (%)	/	/	/	0.89%	1.00%
<b>Per share data (HKD)</b>					
EPS, reported	/	/	/	0.171	0.205
EPS, adj.	/	/	/	0.171	0.205
DPS	/	/	/	0.016	0.022
BVPS	/	/	/	1.006	1.190
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	/	13.53%	20.01%	9.71%	9.05%
Operating profit	/	2.99%	31.88%	20.88%	28.18%
EBT	/	-9.38%	27.59%	24.32%	36.96%
Net Income, adj.	/	-33.33%	15.63%	45.95%	57.84%
<b>Margins</b>					
Gross profit margin	14.09%	14.50%	14.71%	14.71%	15.39%
Operating margin	2.89%	2.62%	2.88%	3.17%	3.73%
Net profit margin	2.07%	1.21%	1.17%	1.56%	2.25%
<b>Key Ratios</b>					
ROE (%)	20.70%	14.20%	15.80%	17.00%	17.26%
ROA (%)	8.90%	5.60%	6.00%	6.37%	6.55%
Net Debt/(Cash)	net cash	net cash	2	net cash	net cash
Net Gearing (X)	net cash	net cash	0.50%	net cash	net cash
<b>Income Statement (HKD mn)</b>					
Revenue	2,320	2,634	3,161	3,468	3,782
Gross profit	327	382	465	510	582
Operating profit	67	69	91	110	141
EBT	64	58	74	92	126
Tax	(10)	(14)	(19)	(26)	(34)
Tax rate	15.63%	24.14%	25.68%	28.26%	26.80%
Profit for the year	51	38	46	60	92
Minority interests	3	6	9	6	7
Net profit	48	32	37	54	85

Source: BLOOMBERG, On Time and Phillip Securities

(Financial figures as at 25 Jun 2015)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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**Contact Information (Regional Member Companies)**

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**SINGAPORE**

**Phillip Securities Pte Ltd**  
 Raffles City Tower  
 250, North Bridge Road #06-00  
 Singapore 179101  
 Tel : (65) 6533 6001  
 Fax : (65) 6535 6631  
 Website: [www.poems.com.sg](http://www.poems.com.sg)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
 B-3-6 Block B Level 3 Megan Avenue II,  
 No. 12, Jalan Yap Kwan Seng, 50450  
 Kuala Lumpur  
 Tel (603) 21628841  
 Fax (603) 21665099  
 Website: [www.poems.com.my](http://www.poems.com.my)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
 Exchange Participant of the Stock Exchange of Hong  
 Kong  
 11/F United Centre 95 Queensway  
 Hong Kong  
 Tel (852) 22776600  
 Fax (852) 28685307  
 Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN**

**PhillipCapital Japan K.K.**  
 Nagata-cho Bldg.,  
 8F, 2-4-3 Nagata-cho,  
 Chiyoda-ku, Tokyo 100-0014  
 Tel (81-3) 35953631  
 Fax (81-3) 35953630  
 Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**INDONESIA**

**PT Phillip Securities Indonesia**  
 ANZ Tower Level 23B,  
 Jl Jend Sudirman Kav 33A  
 Jakarta 10220 – Indonesia  
 Tel (62-21) 57900800  
 Fax (62-21) 57900809  
 Website: [www.phillip.co.id](http://www.phillip.co.id)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
 No 436 Hengfeng Road,  
 Greentech Unit 604,  
 Postal code 200070  
 Tel (86-21) 51699400  
 Fax (86-21) 63532643  
 Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
 15th Floor, Vorawat Building,  
 849 Silom Road, Silom, Bangrak,  
 Bangkok 10500 Thailand  
 Tel (66-2) 6351700 / 22680999  
 Fax (66-2) 22680921  
 Website [www.phillip.co.th](http://www.phillip.co.th)

**FRANCE**

**King & Shaxson Capital Limited**  
 3rd Floor, 35 Rue de la Bienfaisance 75008  
 Paris France  
 Tel (33-1) 45633100  
 Fax (33-1) 45636017  
 Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
 6th Floor, Candlewick House,  
 120 Cannon Street,  
 London, EC4N 6AS  
 Tel (44-20) 7426 5950  
 Fax (44-20) 7626 1757  
 Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
 141 W Jackson Blvd Ste 3050  
 The Chicago Board of Trade Building  
 Chicago, IL 60604 USA  
 Tel +1.312.356.9000  
 Fax +1.312.356.9005

**AUSTRALIA**

**PhillipCapital Australia**  
 Level 12, 15 William Street,  
 Melbourne, Victoria 3000, Australia  
 Tel (613) 96188238  
 Fax (613) 92002272  
 Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

